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ABSTRACT

On September 26, 1990, the Census Bureau released its 1989 figures on poverty and income which showed that no significant progress was made in reducing poverty in 1989, and that gaps between rich and poor and between the wealthy and the middle class hit their widest points in more than 40 years. Although 1989 marked the seventh year of economic recovery, the poverty rate remained higher than in any year of the 1970s. Projected job layoffs and growing food stamp and welfare rolls indicate that the poverty rate has begun to rise in 1990. The new data also show that the lion's share of recent income gains has gone to the richest fifth, in fact, the largest share ever recorded. Furthermore, the Census Bureau does not record an individual's capital gains income, a substantial amount for this sector of the population. The maximum personal income it records is $299,000. If a person earns $1 million a year, it is recorded as $299,000. The poverty rate was much higher in 1989 than in 1979, although the unemployment rate was similar in both years. The poverty rate for Hispanics and children rose dramatically from 1979 to 1989; it declined for the elderly. Declining wage levels, reductions in government benefits, and an increase in the number of families headed by single women have contributed to this trend. In a separate report released the same day, the Census Bureau discussed alternative measures of poverty, such as counting after-tax rather than before-tax income, counting medical benefits as income, omitting the homeless from poverty data, and including food stamps as income. Data are presented in four tables and four graphs. (DM)

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RICH-POOR INCOME GAP HITS 40-YEAR HIGH AS POVERTY RATE STALLS

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After the recessions of 1980 and 1981-1982, family income in the United States expanded through most of the 1980s....but these gains were not distributed evenly. While high-income families enjoyed above-average gains, the incomes of low-income families declined; the rich grew richer, but the poor grew poorer.

- Katharine L. Bradbury, Assistant Vice President and Economist, Federal Reserve Bank of Boston[1]

On September 26, the Census Bureau released its 1989 figures on poverty and income in the United States. These figures show that no significant progress was made in reducing poverty in 1989, while the gaps between rich and poor and between the wealthy and the middle class hit their widest points in more than 40 years.

Although 1989 marked the seventh year of economic recovery, the poverty rate failed to register any significant change and remained higher than in any year of the 1970s, including the deepest recession years of that decade.

The lack of progress in reducing poverty is cause for concern. Normally poverty rates fall during economic recoveries and rise sharply in recessions, so it is important to reduce the poverty rate to as low a level as possible before a recession hits. Yet after seven years of recovery, the nation failed to reduce the poverty rate even to the levels of the most severe recession years of the 1970s. With the economy now running out of steam and a new recession threatening, the poverty rate is likely to start rising again.

This means an already high poverty rate is likely to climb still higher. Rising unemployment rates in recent months, new announcements of job layoffs, and rapidly growing food stamp and public assistance rolls all indicate the poverty rate has begun to rise in 1990.

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[1] "The Changing Fortunes of American Families in the 1980s," *New England Economic Review*, Federal Reserve Bank of Boston, July/August 1990, p. 25.

777 North Capitol Street, NE, Suite 705, Washington, DC 20002 Tel: 202-408-1080 Fax: 202-408-1056

Rich-Poor Gap Widest in 40 Years

The limited progress in reducing poverty in recent years also reflects a larger trend -- an economic recovery in which the lion's share of the income gains has gone to those at the top of the income scale.

The new Census data show that the share of the national family income going to the broad middle class -- the three-fifths of all families in the middle of the income spectrum -- was lower in 1989 than in any year since the Census Bureau began collecting these data in 1947 (see Table 1). Similarly, the share going to the poorest fifth of families was as low or lower than in any year since 1954.

But the share of the national income going to the wealthiest fifth -- as well as the share going to the richest five percent of families -- was the highest ever recorded.

Table 1
Income Distribution of American Families in 1989

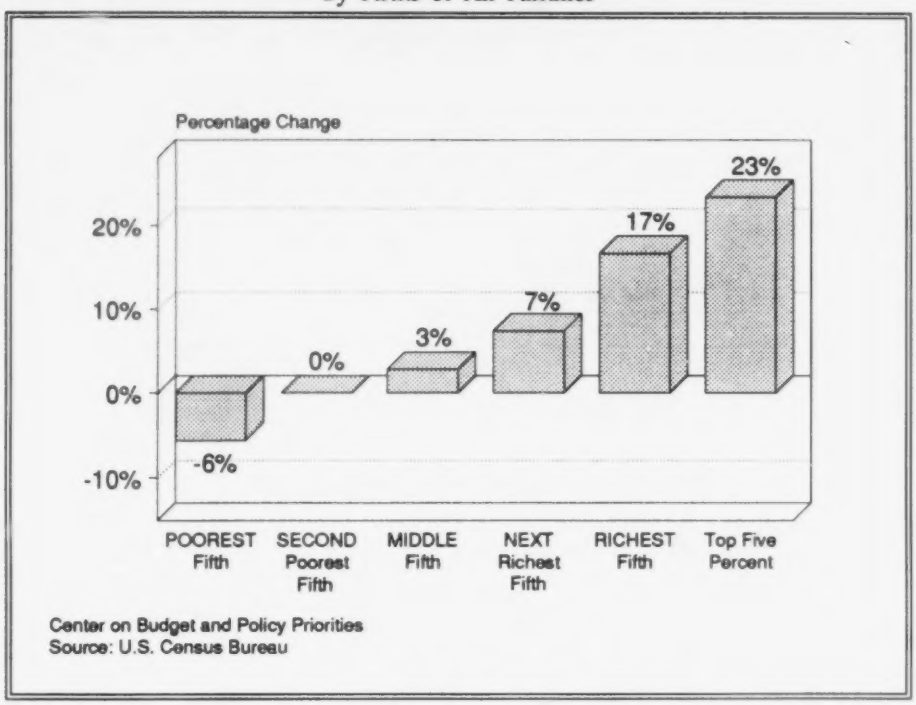
Population Category	Percentage of Total National Family Income Received	Historical Relation to Previous Shares
Poorest fifth	4.6%	Tie for lowest since 1954
Second poorest fifth	10.6	Lowest ever recorded
Middle fifth	16.5	Lowest ever recorded
Next richest fifth	23.7	Lowest since 1969
Richest fifth	44.6	Highest ever recorded
Richest five percent	17.9	Highest ever recorded
Middle three-fifths	50.8	Lowest ever recorded

Note: Families with incomes of $16,003 or less made up the poorest fifth of families in 1989. Those with incomes between $16,003 and $28,000 made up the second poorest fifth. The income cutoff for the middle fifth of families was $40,800, while the cutoff for the next-to-the-top fifth was $59,550. All families with income above $59,550 were in the top fifth of families. The minimum income of the wealthiest five percent of families was $98,963.

In addition, over the past decade -- from 1979 to 1989 -- the average income of the poorest fifth of families fell, after adjustment for inflation, while the average income of families in the middle of the income spectrum remained about the same, rising just 2.8 percent (see Figure I). For the average middle income family, this equalled an income gain of only about $90 per year over the decade.

By contrast, the average income of the wealthiest fifth of families rose 16.7 percent – or more than $13,000 -- over the 10-year period, while the average income of the wealthiest 5 percent of U.S. families jumped 23.4 percent, or more than $28,000.[2]

Figure I
Average Before-Tax Income Gains and Losses Between 1979 and 1989,
By Fifths of All Families



Modest Increase in Median Income

The increase in income disparities was reflected even in income changes just between 1988 and 1989. The new Census data indicate that median family income rose slightly between 1988 and 1989, increasing 1.4 percent, after adjustment for inflation. Similarly, the average income of families in the middle fifth of the

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[2] These same patterns hold if an alternative measure of inflation (the CPI-U-X) is used to measure changes in income from 1979 to 1989. The one difference is that families in all income groups are found to have experienced about a two percentage point larger income gain (or a two percentage point smaller income decline) during this period. The average income of the poorest fifth of families declined 5.6 percent under the official income measure and 3.8 percent when the alternative inflation adjustment procedures are used. The average middle income family experiences a 4.7 percent income gain under the alternative inflation measure, compared with 2.8 percent under the official measure. Those in the top fifth are found to have gained 18.9 percent when the alternative procedures are used, as compared with 16.7 percent under the official procedures.

income distribution rose 1.2 percent, or $419. But while the income of middle income families rose only a little more than one percent, the average income of those in the richest five percent of families increased $9,327, or 6.7 percent. The average income of those in the top fifth of families rose $3,630, or 4.1 percent.

Figures Understate Gains of Rich

Furthermore, these figures understate both the income growth among the very wealthy and the unevenness of the economic recovery. This is true for two reasons. First, the Census data do not include capital gains income, a major source of income for wealthy households. A Congressional Budget Office analysis issued earlier this year estimated that among the wealthiest one percent of all households, capital gains income has more than doubled over the past 10 years and now averages $175,000 per household. By contrast, average capital gains income is less than $300 per year among Americans not in the richest 10 percent, CBO found.[3]

Second, the Census data understate the income gains among the very wealthy because the Census Bureau does not record any salary or wage level as being higher than $299,999. If an individual earns $1 million a year, his or her salary is recorded as $299,999 in the Census data.[4]

In conducting its study, the Congressional Budget Office overcame these problems by using data from income tax returns to help determine the actual incomes of the very wealthy. The CBO study found such sharp income growth at the top of the income scale that the total incomes of the richest 2.5 million Americans in 1990 will nearly equal the incomes of the 100 million poorest.

The CBO study found two of the principal reasons for the growth in income disparities over the past decade to be sharp increases in the salaries and wages paid to those at the top of the income spectrum (by contrast, salaries and wages paid to other Americans failed to improve much or in some cases declined) and the large increases in capital gains income.

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[3]The data compiled by CBO are found in Committee on Ways and Means, U.S. House of Representatives, *Overview of Entitlement Programs: Background Material and Data on Programs Within the Jurisdiction of the Committee on Ways and Means*, (The Green Book), June 1990, p. 1159-1206.

[4] The late Joseph Pechman observed in the 1989 presidential address he prepared for delivery to the American Economics Association that due to problems such as these, Census data "greatly understate the increase in inequality that has occurred during the 1980s." See Joseph A. Pechman, "Why We Should Stick With the Income Tax," *The Brookings Review*, Spring 1990, pp. 10-11.

Poverty Rate Stuck at High Level

In 1989, some 12.8 percent of all Americans -- 31.5 million people -- fell below the poverty line. In statistical terms this represented no change from the poverty rate in 1988, when 13 percent of Americans – 31.7 million people -- were poor. The Census Bureau has said that the differences in the poverty figures for the two years are within the margin of sampling error.

The poverty rate was substantially higher in 1989 than it had been a decade earlier in 1979, even though the unemployment rate was similar in both years[5] and the two years represent comparable points in economic recoveries (see Figure II). While the poverty rate stood at 12.8 percent in 1989, it was 11.7 percent in 1979. Had the overall poverty rate been the same in 1989 as in 1979, some 2.75 million fewer Americans would have been poor last year.

Figure II
U.S. Poverty Rates, 1970-1989

[5]The unemployment rate was 5.8 percent in 1979 and 5.3 percent in 1989.

Between 1979 and 1989, the poverty rate among whites increased from 9 percent to 10 percent, while it increased from 21.8 percent to 26.2 percent among Hispanics. Only among blacks did it remain essentially unchanged at about 31 percent.

Over the past decade, poverty increases have been particularly marked among children. The poverty rate among children climbed from 16.4 percent in 1979 to 19.6 percent in 1989. The number of poor children rose from 10.4 million to 12.6 million.

The elderly were the only major population group for which poverty rates declined between 1979 and 1989. Poverty among the elderly dropped from 15.2 percent in 1979 to 11.4 percent in 1989.

Table 2
Poverty Data: 1979, 1988 and 1989

	1979	1988	1989*
Unemployment Rate	5.8%	5.5%	5.3%
Poverty Rate			
All Persons	11.7%	13.0%	12.8%
White	9.0	10.1	10.0
Black	31.0	31.3	30.7
Hispanic	21.8	26.7	26.2
Child Poverty Rate			
All Children	16.4%	19.5%	19.6%
White	11.8	14.5	14.8
Black	41.2	43.5	43.7
Hispanic	28.0	37.6	36.2
Elderly Poverty Rate	15.2%	12.0%	11.4%
Number of Persons in Poverty	26,072,000	31,745,000	31,534,000
Number of Children in Poverty	10,377,000	12,455,000	12,590,000

Center on Budget and Policy Priorities
Source: U.S. Census Bureau

*No changes in poverty rates from 1988 to 1989 are statistically significant.

A variety of factors contributed to these trends. These included declining wage levels (average hourly wages for nonsupervisory workers were lower in 1989 than in any year since 1970, after adjustment for inflation), reductions in a number of government benefits, and increases in the proportion of families headed by a single woman.

The extent to which increases in the proportion of families that are female-headed contributed to the rise in poverty over the past 10 years should not be overstated, however. In 1979, some 36 percent of all poor people lived in female-headed families; in 1989, some 37 percent did. By itself, this change can explain only a modest amount of the increase in poverty over the decade.

Increase in Depth of Poverty

In addition to increases in the number of poor people between 1979 and 1989, those who were poor fell deeper into poverty during the decade. One way to measure this is to examine what is known as the "poverty gap" – the total amount by which the incomes of all poor households fall below the poverty line.

In 1979, the poverty gap was $39.8 billion. In other words, the incomes of all who were poor fell short of the poverty line by a total of $39.8 billion. Ten years later, in 1989, the poverty gap had risen to $54.3 billion, an increase of more than one-third. These figures are adjusted for inflation, so that none of the rise in the poverty gap is the result of higher prices or of an increase in the poverty line between 1979 and 1989.

Some of the increase in the poverty gap is due to the fact that there were more poor people in 1989 than in 1979 and to changes in average family size. However, the magnitude of the increase in the poverty gap substantially exceeds the increase in the number of poor people or the increase that would be expected due to changes in family size.

Similarly, between 1979 and 1989, more of the poor fell into the group that might be termed the "poorest of the poor" -- those with incomes less than *half* the poverty line. In 1989, half the poverty line was $4,943 for a family of three.

In 1979, some 32 percent of all poor people lived in families with incomes below half the poverty line. In 1989, some 38 percent of the poor had incomes this low.

The increases over the decade in the proportion of the poor who fell into the poorest of the poor category were especially sharp among several groups. In 1979, for example, 38 percent of all black children who were poor lived in families

with incomes below half the poverty line. By 1989, half of all poor black children lived in families this poor.

Male-Female Earnings Gap

The new Census data also indicate that the earnings gap between men and women narrowed in 1989, with full-time women workers earning 68 percent as much as full-time men workers. The data show that the narrowing of the gap was due as much to a decline in male earnings as to a gain in female earnings. Between 1988 and 1989, the earnings of the typical full-time woman worker rose 1.8 percent after inflation, but the earnings of the typical male full-time worker dropped 1.8 percent. This marked the second consecutive year in which there was a significant decline in men's earnings.

The 1980s in Perspective

With 1989 marking the final year of the 1980s, poverty trends in the 1980s can be compared with those in the 1970s. The results reveal higher average poverty rates in the 1980s than in the 1970s among the U.S. population as a whole, among all major racial and ethnic groups, among both two-parent and female-headed families, and particularly among children. Among major population groups, the average poverty rate was lower in the 1980s than in the 1970s only among the elderly.

Table 3
Average Poverty Rates for the 1970s and 1980s

Population Category	1970-79	1980-89
All Persons	11.8%	13.8%
White	9.1	11.0
Black	31.6	32.9
Hispanic	na	27.6
Children Under 18	15.7%	20.5%
Elderly (65 and over)	16.9	13.3
Female-Headed Families	32.2%	34.3%
Aggregate Poverty Gap[1]	$39.8 billion	$54.3 billion

[1]Represents the total amount by which the incomes of all poor households fell below the poverty line.

Alternative Measures of Poverty

In a separate report also published on September 26, the Census Bureau issued a series of alternative measures of poverty. These measures, which the Census Bureau regards as experimental, reflect 11 different ways of measuring income when determining if a household's income falls below the poverty line. Use of these alternative measures results in changes in the number of people counted as poor.

For example, counting *after*-tax rather than *before*-tax income reduces the amount of income that is counted -- and thereby increases the number of people who are considered to be poor. Conversely, counting as income the value of non-cash government benefits -- such as food stamps or Medicaid -- has the effect of decreasing the number of people who are considered poor.

The Census Bureau notes there are "many issues surrounding the accuracy of the poverty definition," including which inflation index to use in adjusting the poverty line for increases in the cost of living, whether the poverty line should be changed (and raised to a higher level), whether various non-cash benefits should be counted as income, whether to continue using a different -- and lower -- poverty line for elderly singles and couples than for non-elderly households of the same size, the omission of the homeless from the official poverty data, whether to adjust the poverty line for regional cost of living differences, and whether to include the value of assets.[6] Some of these issues, such as the counting of non-cash benefits, are addressed in the Census Bureau's alternative measures of poverty. But many of the other issues the Census Bureau has identified are not addressed by the alternative poverty measures.

In addition, the Census Bureau has acknowledged that there are a number of unresolved issues concerning the alternative measures of poverty. For example, poverty experts are undecided about whether medical benefits can or should be counted as income to a poor household. In 1985, the Census Bureau convened a conference of poverty experts to discuss some of these issues. The experts attending the conference could not agree on whether medical benefits should be counted as income. However, they did reach consensus that if the value of medical benefits were to be counted as income, the poverty line would have to be increased. As the Census Bureau reported, "Most participants at the noncash conference agreed that poverty thresholds would have to be changed if the value

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[6] Bureau of the Census, *Money, Income and Poverty Status in the United States: 1989*, September 1990, page 15.

of medical care were to be included in the income definition."[7] Several of the alternative measures published by the Census Bureau, however -- the measures that produce the lowest poverty rates – count medical benefits as income without raising the poverty line.

If all the issues concerning the measurement of poverty were resolved, it is not clear whether the number of people counted as poor would increase or decrease. While some adjustments, such as counting non-cash benefits as income, would tend to lower the poverty count, other adjustments would raise the poverty count. A recent Gallup poll found that most Americans would set the poverty line at a considerably higher level than that currently used. Until all of the issues surrounding the measurement of poverty are addressed, it would be premature to consider any of the Census Bureau's alternative poverty measures as superior to the current official measure.

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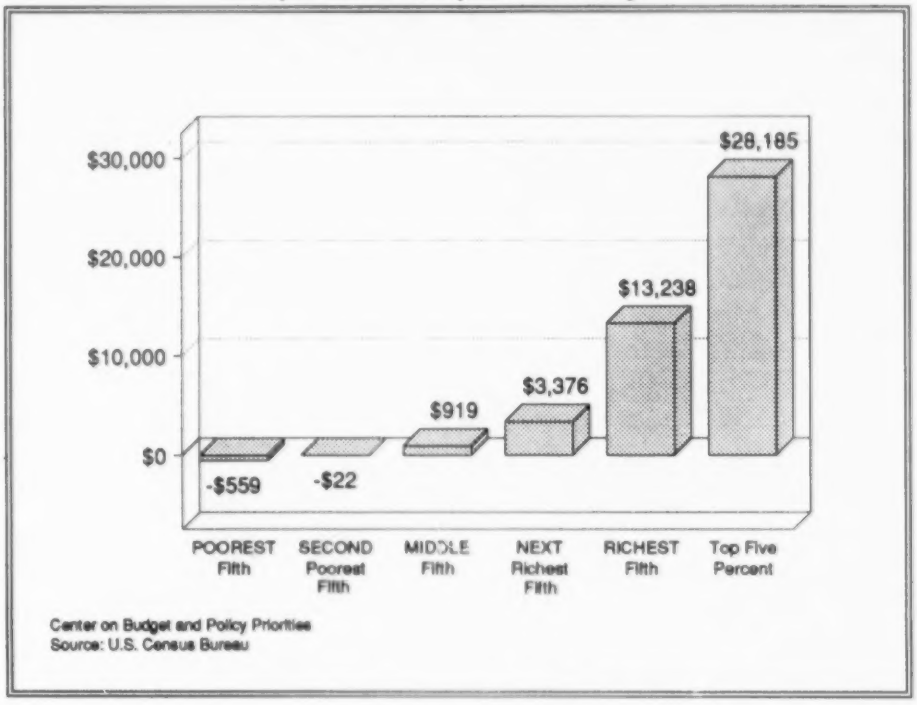
Average Before-Tax Income Gains and Losses Between 1979 and 1988,
By Various Family Income Groups



[7] Bureau of the Census, *Estimates of Poverty Including the Value of Noncash Benefits: 1987*, August 1988, page 10.

Changes in Average Before-Tax Family Incomes, 1979-1989,
By Various Income Groups
(in 1989 CPI-U dollars)

National income category	1979	1989	change: 1979-89 ($)	change: 1979-89 (%)
Poorest fifth	$ 9,990	$ 9,431	$ -559	-5.6%
Next poorest fifth	22,040	22,018	-22	-0.1
Middle fifth	33,287	34,206	919	2.8
Next richest fifth	45,837	49,213	3,376	7.4
Richest fifth	79,425	92,663	13,238	16.7
Richest five percent	$ 120,253	$ 148,438	$ 28,185	23.4%

Center on Budget and Policy Priorities
Source: U.S. Census Bureau

Distribution of Total Family Income in 1989,
By Fifths of All Families